



**Maquassi Hills Local Municipality**  
***Annual Financial Statements***  
***for the year ended 30 June 2017***

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## General Information

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Legal form of entity	Local Municipality
Nature of business and principal activities	Municipality
Members of Council	
Mayor	GV Kgabi
Councillors	MD Notwane (Speaker) KA Mogapi (EXCO) KS Seakane (EXCO) GJ van Zyl (EXCO) TP Bolao IR Dintwe TS Malebatsane SD Manele BF Maphatsoe SG Maruping SO Masibi NF Maxatshwa MM Moepi PT Mokgabi GJ Muller MN Ntuli J Pheiffer AO Phutiyagae KJ Selebalo LS Tatabang NL Tshingilane PR Legabe - Term ended 3 August 2016 KG Mojela - Term ended 3 August 2016 TS Selete - Term ended 3 August 2016 MD Matete - Term ended 3 August 2016 MS Sejeso - Term ended 3 August 2016 KS Kgaodi - Term ended 3 August 2016 KA Mogapi - Term ended 3 August 2016 GP Motswagole - Term ended 3 August 2016 SJ Lesie - Term ended 3 August 2016 NW Ntiane - Term ended 3 August 2016 MD Serectsi - Term ended 3 August 2016 MD Serectsi - Term ended 3 August 2016 ME Motaung - Term ended 3 August 2016 DK Mohadi - Term ended 3 August 2016 MG Letlakane - Term ended 3 August 2016 GJ Van Zyl - Term ended 3 August 2016 BJ Mahumapelo - Term ended 3 August 2016
Chief Finance Officer (CFO)	Mr Johannes Mogoemang (Acting)
Accounting Officers	S Lehlonya
Registered office	19 Kruger Street Wolmaransstad 2630

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **General Information**

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<b>Business address</b>	19 Kruger Street Wolmaransstad 2630
<b>Postal address</b>	Private Bag X3 Wolmaransstad 2630
<b>Bankers</b>	ABSA Wolmaransstad
<b>Auditors</b>	Auditor - General of South Africa

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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### Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Approval of annual financial statements**

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I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 59, in terms of Section 126(1) of the Municipality Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

S Lehlonya  
Acting Municipal Manager

DATE... 31/08/17

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Officer's Responsibilities and Approval**

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The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page \*\*\*.

The annual financial statements set out on page 6 to 59 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:



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S Lehlonya  
Acting Municipal Manager

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Report

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The accounting officers submit their report for the year ended 30 June 2017.

### 1. Review of activities

#### Main business and operations

The Municipality operates in South Africa.

Maquassi Hills Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998).

The operating results and state of affairs of the Municipality are fully set out in the attached financial statements and do not in my opinion require any further comment.

### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 3. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year that would require disclosure in the financial statements.

### 4. Accounting Officers' interest in contracts

The Accounting Officer has no interests in contracts of the Municipality.

### 5. Accounting policies

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

### 6. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Changes
S Lehlonya	Appointed 01 June 2017
I R Jonas	Contract ended 31 May 2017

### 7. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

### 8. Auditors

Auditor - General of South Africa will continue in office for the next financial period.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

	Note(s)	2017 R	2016 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	824 819	855 305
Investments	4	387 714	757 225
Receivables from non-exchange transactions	5	26 762 773	32 966 390
VAT receivable	6	26 433 098	24 444 343
Trade and other receivables from exchange transactions	7	19 639 660	23 886 713
Cash and cash equivalents	8	5 129 860	7 584 079
		<b>79 177 924</b>	<b>90 494 055</b>
<b>Non-Current Assets</b>			
Investment property	9	66 492 000	66 492 000
Property, plant and equipment	10	940 474 422	922 185 549
		<b>1 006 966 422</b>	<b>988 677 549</b>
<b>Total Assets</b>		<b>1 086 144 346</b>	<b>1 079 171 604</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	11	5 629 225	4 013 786
Payables from exchange transactions	12	175 658 827	147 187 821
Consumer deposits	13	2 260 511	2 227 106
Employee benefit obligation	14	892 000	896 000
Unspent conditional grants and receipts	15	12 830 863	10 682 336
Provisions	16	13 935 943	17 896 295
Bank overdraft	8	4 333 879	3 638 646
		<b>215 541 248</b>	<b>186 541 990</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	11	41 020 225	41 544 405
Employee benefit obligation	14	26 980 000	27 619 000
Provisions	16	7 647 234	-
		<b>75 647 459</b>	<b>69 163 405</b>
<b>Total Liabilities</b>		<b>291 188 707</b>	<b>255 705 395</b>
<b>Net Assets</b>		<b>794 955 639</b>	<b>823 466 209</b>
Accumulated surplus		<b>794 955 632</b>	<b>823 466 209</b>



# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

	Note(s)	2017 R	2016 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Licence and permits	17	1 945 731	1 885 803
Service charges	18	164 333 165	137 128 885
Rental of facilities and equipment	19	722 353	610 809
Other income	20	2 558 634	60 719 870
Interest revenue	21	55 404 821	42 876 639
Gain on disposal of assets and liabilities		354 130	-
<b>Total revenue from exchange transactions</b>		<b>225 318 834</b>	<b>243 222 006</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	22	35 084 639	31 760 081
Fair value adjustments		1 320	-
<b>Transfer revenue</b>			
Government grants	23	170 238 474	144 138 426
Fines		11 577 729	18 528 270
<b>Total revenue from non-exchange transactions</b>		<b>216 902 162</b>	<b>194 426 777</b>
<b>Total revenue</b>	17	<b>442 220 996</b>	<b>437 648 783</b>
<b>Expenditure</b>			
Employee related costs	24	(62 603 455)	(65 766 423)
Remuneration of councillors	25	(7 521 988)	(7 163 876)
Depreciation	26	(41 501 332)	(41 708 559)
Impairment loss	10	(2 878 445)	-
Finance costs	27	(6 329 652)	(6 613 493)
Debt impairment	28	(178 641 499)	(61 281 134)
Repairs and maintenance		(12 213 961)	(13 456 615)
Bulk purchases	29	(101 043 852)	(81 831 075)
Contracted services	30	(6 147 831)	(6 166 773)
Loss on disposal of assets and liabilities		-	(25 072)
General expenses	31	(51 849 561)	(50 879 718)
<b>Total expenditure</b>		<b>(470 731 576)</b>	<b>(334 892 738)</b>
<b>(Deficit) surplus for the year</b>		<b>(28 510 580)</b>	<b>102 756 045</b>

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	722 903 638	722 903 638
Adjustments		
Prior year adjustments - Refer to note 45	(2 193 474)	(2 193 474)
<b>Balance at 01 July 2015 as restated</b>	<b>720 710 164</b>	<b>720 710 164</b>
Changes in net assets		
Surplus for the year as previously stated	94 824 112	94 824 112
Correction of prior year errors - Note 45	7 931 933	7 931 933
Total changes	102 756 045	102 756 045
<b>Balance at 01 July 2016</b>	<b>823 466 212</b>	<b>823 466 212</b>
Changes in net assets		
Deficit for the year	(28 510 580)	(28 510 580)
Total changes	(28 510 580)	(28 510 580)
<b>Balance at 30 June 2017</b>	<b>794 955 632</b>	<b>794 955 632</b>

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

	Note(s)	2017 R	2016 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		57 279 551	99 295 013
Government grants		178 840 000	152 249 000
Interest revenue		915 117	896 744
Other receipts		35 267 299	4 091 580
		<u>272 301 967</u>	<u>256 532 337</u>
<b>Payments</b>			
Employee costs		(70 125 443)	(72 933 214)
Suppliers and other payments		(142 114 190)	(144 296 243)
Finance costs		(866 729)	(4 379 493)
		<u>(213 106 362)</u>	<u>(221 608 950)</u>
<b>Undefined difference compared to the cash generated from operations note</b>		<b>(1 642 214)</b>	<b>530 929</b>
<b>Net cash flows from operating activities</b>	33	<b>57 553 391</b>	<b>35 454 316</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(62 807 153)	(42 634 844)
Proceeds from sale of property, plant and equipment	10	505 824	-
(Increase) / Decrease in investments		370 836	(24 907)
		<u>(61 930 493)</u>	<u>(42 659 751)</u>
<b>Cash flows from financing activities</b>			
Increase / (Decrease) in borrowings		1 091 259	(1 991 168)
<b>Net cash flows from financing activities</b>		<b>1 091 259</b>	<b>(1 991 168)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3 285 843)</b>	<b>(9 196 603)</b>
Cash and cash equivalents at the beginning of the year		3 945 433	13 672 965
<b>Cash and cash equivalents at the end of the year</b>	8	<b>659 590</b>	<b>4 476 362</b>

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Licence and permits	10 243 389	(1 099 059)	9 144 330	1 945 731	(7 198 599)	Note 47
Service charges	64 885 223	85 462 716	150 347 939	164 333 165	13 985 226	Note 47
Rental of facilities and equipment	89 357	514 943	604 300	722 353	118 053	
Other income	7 202 635	(4 839 174)	2 363 461	2 558 634	195 173	
Interest revenue	21 132 390	28 962 610	50 095 000	55 404 821	5 309 821	Note 47
<b>Total revenue from exchange transactions</b>	<b>103 552 994</b>	<b>109 002 036</b>	<b>212 555 030</b>	<b>224 964 704</b>	<b>12 409 674</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	14 371 775	20 128 225	34 500 000	35 084 639	584 639	Note 47
Government Grants - Operating	-	-	-	1 320	1 320	
<b>Transfer revenue</b>						
Government grants	127 619 340	61 936 716	189 556 056	170 238 474	(19 317 582)	Note 47
Fines	-	3 389 000	3 389 000	11 577 729	8 188 729	Note 47
<b>Total revenue from non-exchange transactions</b>	<b>141 991 115</b>	<b>85 453 941</b>	<b>227 445 056</b>	<b>216 902 162</b>	<b>(10 542 894)</b>	
<b>Total revenue</b>	<b>245 544 109</b>	<b>194 455 977</b>	<b>440 000 086</b>	<b>441 866 866</b>	<b>1 866 780</b>	
<b>Expenditure</b>						
Personnel	(77 079 283)	8 964 467	(68 114 816)	(62 603 455)	5 511 361	Note 47
Remuneration of councillors	(7 715 469)	(1 040)	(7 716 509)	(7 521 988)	194 521	
Depreciation and amortisation	(49 641 953)	7 794 953	(41 847 000)	(41 501 332)	345 668	
Debt impairment	-	-	-	(2 878 445)	(2 878 445)	Note 47
Finance costs	(2 150 027)	(1 999 973)	(4 150 000)	(6 329 652)	(2 179 652)	Note 47
Debt Impairment	-	(60 635 966)	(60 635 966)	(178 641 499)	(118 005 533)	Note 47
Repairs and maintenance	-	-	-	(12 213 961)	(12 213 961)	Note 47
Bulk purchases	(77 913 777)	(18 091 580)	(96 005 357)	(101 043 852)	(5 038 495)	Note 47
Contracted services	(15 865 631)	60 498	(15 805 133)	(6 147 831)	9 657 302	Note 47
Transfers and Subsidies	(29 725 340)	29 725 340	-	-	-	
General Expenses	(38 913 856)	(4 557 111)	(43 470 967)	(51 849 561)	(8 378 594)	Note 47
<b>Total expenditure</b>	<b>(299 005 336)</b>	<b>(38 740 412)</b>	<b>(337 745 748)</b>	<b>(470 731 576)</b>	<b>(132 985 828)</b>	
<b>Operating deficit</b>	<b>(53 461 227)</b>	<b>155 715 565</b>	<b>102 254 338</b>	<b>(28 864 710)</b>	<b>(131 119 048)</b>	
Loss on disposal of assets	-	-	-	354 130	354 130	
<b>Surplus for the year</b>	<b>(53 461 227)</b>	<b>155 715 565</b>	<b>102 254 338</b>	<b>(28 510 580)</b>	<b>(130 764 918)</b>	

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	1 500 000	-	1 500 000	824 819	(675 181)	
Investments	782 000	-	782 000	387 714	(394 286)	
VAT receivable	-	-	-	26 433 098	26 433 098	
Receivables from exchange and non-exchange transactions	404 469 131	-	404 469 131	19 639 660	(384 829 471)	Note 47
Cash and cash equivalents	7 900 000	-	7 900 000	5 129 860	(2 770 140)	Note 47
	<b>414 651 131</b>	<b>-</b>	<b>414 651 131</b>	<b>52 415 151</b>	<b>(362 235 980)</b>	
<b>Non-Current Assets</b>						
Investment property	-	-	-	66 492 000	66 492 000	
Property, plant and equipment	630 856 248	62 964 716	693 820 964	940 474 422	246 653 458	Note 47
Intangible assets	40 000	-	40 000	-	(40 000)	
	<b>630 896 248</b>	<b>62 964 716</b>	<b>693 860 964</b>	<b>1 006 966 422</b>	<b>313 105 458</b>	
<b>Total Assets</b>	<b>1 045 547 379</b>	<b>62 964 716</b>	<b>1 108 512 095</b>	<b>1 059 381 573</b>	<b>(49 130 522)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	2 090 439	-	2 090 439	5 629 225	3 538 786	Note 47
Payables from exchange transactions	-	-	-	175 658 827	175 658 827	Note 47
Consumer deposits	2 400 000	-	2 400 000	2 260 511	(139 489)	
Employee benefit obligation	-	-	-	892 000	892 000	Note 47
Unspent conditional grants and receipts	-	-	-	12 830 863	12 830 863	Note 47
Provisions	-	-	-	13 935 943	13 935 943	Note 47
Bank overdraft	18 400 000	-	18 400 000	4 333 879	(14 066 121)	Note 47
	<b>22 890 439</b>	<b>-</b>	<b>22 890 439</b>	<b>215 541 248</b>	<b>192 650 809</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	45 607 845	-	45 607 845	41 020 225	(4 587 620)	Note 47
Employee benefit obligation	-	-	-	26 980 000	26 980 000	Note 47
Provisions	61 792 362	-	61 792 362	7 647 234	(54 145 128)	Note 47
	<b>107 400 207</b>	<b>-</b>	<b>107 400 207</b>	<b>75 647 459</b>	<b>(31 752 748)</b>	
<b>Total Liabilities</b>	<b>130 290 646</b>	<b>-</b>	<b>130 290 646</b>	<b>291 188 707</b>	<b>160 898 061</b>	
<b>Net Assets</b>	<b>915 256 733</b>	<b>62 964 716</b>	<b>978 221 449</b>	<b>768 192 866</b>	<b>(210 028 583)</b>	
<b>Reserves</b>						
Accumulated surplus	915 256 733	62 964 716	978 221 449	794 955 635	(183 265 814)	Note 47
<b>Undefined Difference</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(26 762 769)</b>	<b>(26 762 769)</b>	
<b>Total Net Assets</b>	<b>915 256 733</b>	<b>62 964 716</b>	<b>978 221 449</b>	<b>794 955 635</b>	<b>(183 265 814)</b>	

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Property rates	14 371 775	20 128 225	34 500 000	39 318 288	4 818 288	
Service charges	62 227 842	88 120 097	150 347 939	57 279 551	(93 068 388)	
Government Grants	127 619 340	61 936 716	189 556 056	178 840 000	(10 716 056)	
Interest revenue	21 132 390	28 367 610	49 500 000	60 615 283	11 115 283	
Dividends received	2 019	-	2 019	-	(2 019)	
Other receipts	17 533 362	(4 431 966)	13 101 396	16 804 447	3 703 051	
	<b>242 886 728</b>	<b>194 120 682</b>	<b>437 007 410</b>	<b>352 857 569</b>	<b>(84 149 841)</b>	

##### Payments

Suppliers, employee and other payments	(271 004 143)	40 457 008	(230 547 135)	(142 114 190)	88 432 945	
Finance costs	(2 150 027)	(2 000 000)	(4 150 027)	(866 729)	3 283 298	
	<b>(273 154 170)</b>	<b>38 457 008</b>	<b>(234 697 162)</b>	<b>(142 980 919)</b>	<b>91 716 243</b>	

<b>Net cash flows from operating activities</b>	<b>(30 267 442)</b>	<b>232 577 690</b>	<b>202 310 248</b>	<b>209 876 650</b>	<b>7 566 402</b>	
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#### Cash flows from investing activities

Purchase of property, plant and equipment	(29 725 340)	122 415 396	92 690 056	63 807 152	(28 882 904)	
Decrease (Increase) in non-current debtors	50 000	(50 000)	-	-	-	
Decrease (increase) in non-current investments	-	595 000	595 000	-	(595 000)	

<b>Net cash flows from investing activities</b>	<b>(29 675 340)</b>	<b>122 960 396</b>	<b>93 285 056</b>	<b>63 807 152</b>	<b>(29 477 904)</b>	
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#### Cash flows from financing activities

Decrease in borrowings	(2 849 973)	-	(2 849 973)	1 091 259	3 941 232	
Net increase/(decrease) in cash and cash equivalents	(62 792 755)	355 538 086	292 745 331	274 775 061	(17 970 270)	Note 47
Cash and cash equivalents at the beginning of the year	(9 341 000)	-	(9 341 000)	3 945 433	13 286 433	Note 47
<b>Cash and cash equivalents at the end of the year</b>	<b>(72 133 755)</b>	<b>355 538 086</b>	<b>283 404 331</b>	<b>278 720 494</b>	<b>(4 683 837)</b>	

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand, which is the functional currency of the municipality, and rounded to the nearest Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### **1.2 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Financial assets**

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the Municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### **Impairment testing**

The recoverable amounts of cash-generating units/ individual assets and non-cash generating assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact estimations and may then require a material adjustment to the carrying value of related assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for the assets. Expected future cash flows used to determine the value in use of related assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand for municipal services, timing of cash flows, together with economic factors such as inflation and interest rates. Refer to sections 1.7 and 1.8 for more detail on the accounting policies for impairment of cash-generating and non-cash-generating assets.

##### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.2 Significant judgements and sources of estimation uncertainty (continued)**

#### **Useful lives and residual values of property, plant and equipment**

The municipality's management determines the estimated useful lives and residual values of property, plant and equipment. This estimate is based on judgment and the Municipality's plans with respect to the assets. Accumulated depreciation is adjusted accordingly to reflect the change in useful lives.

#### **Post-retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

#### **Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.3 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.



## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Policies**

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#### **1.3 Investment property (continued)**

##### **Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the Municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the Municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the Municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The Municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the Municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note ).

#### **1.4 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Policies**

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#### **1.4 Property, plant and equipment (continued)**

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Accounting Policies

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#### 1.4 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Electricity	Straight line	5 - 80 years
Roads	Straight line	5 - 80 years
Water	Straight line	10 - 100 years
Sewerage	Straight line	15 - 100 years
Pedestrians malls	Straight line	10 - 100 years
Housing	Straight line	80 years
Solid waste	Straight line	5 - 100 years
Rail waste	Straight line	20 - 100 years
ICT	Straight line	1 - 120 years
Buildings	Straight line	20 - 80 years
Office equipment	Straight line	3 - 5 years
Furniture and fittings	Straight line	7 years
Other items of plant and equipment	Straight line	2 - 20 years
Specialised vehicles	Straight line	3 - 20 years
Specialised plant and equipment	Straight line	10 - 20 years
Water craft	Straight line	15 years
Buildings and other assets	Straight line	20 - 80 years
Recreation facilities	Straight line	10 - 80 years
Security measures	Straight line	5 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.4 Property, plant and equipment (continued)**

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### **1.5 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

#### **Initial recognition**

Financial instruments are recognised when the Municipality becomes a party to contractual provision of the instruments.

Financial instruments are initially recognised at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on the nature and terms of the financial instrument for which the financial instruments were obtained / incurred and takes place at initial recognition.

#### **Subsequent measurement of financial assets and financial liabilities**

##### **Trade and other receivables**

Debtors are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Bad debts are written off during the year in which they are identified in surplus or deficit.

##### **Trade and other payables**

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

##### **Cash and cash equivalents, and short-term investments**

Cash and cash equivalents comprise cash on hand and demand deposits; and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially measured at fair value and subsequently measured at amortised cost.

##### **Bank overdraft, borrowings and other financial liabilities**

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the effective interest rate method.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.5 Financial instruments (continued)

Bank overdraft and other financial liabilities are subsequently carried at amortised cost.

#### Impairment and uncollectibility of financial assets

The Municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On the derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (including any asset obtained less any liability assumed) is recognised in surplus or deficit.

##### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, waived or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

### 1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.6 Leases (continued)**

#### **Operating leases - The Municipality as lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases -The Municipality as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.7 Inventories**

Inventories are recognised as an asset if :

- it is probable that future economic benefits or service potential associated with the item will flow to the Municipality; and
- the cost of the inventories can be measured reliably.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality would incur to acquire the asset on the reporting date.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.8 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

### 1.10 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.



# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.10 Employee benefits (continued)

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and reduced by the fair value of plan assets.

#### Other employee benefits

The Municipality provides post-retirement health care benefits, upon retirement to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The Municipality also provides long service awards. Awards are accrued over the period of employment.

Independent qualified actuaries carry out valuations of these awards.

The cost of providing the above mentioned benefits is determined using the projected unit credit method.

#### Actuarial gains/losses

Actuarial gains and losses may result from increases or decreases in either the present value of a defined employee benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses may include:

- unexpectedly high or low rates of employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in estimates of future employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in the discount rate; and
- differences between the actual return on plan assets and the expected return on plan assets.

Actuarial gains and losses are recognised in full in the year that they occur in surplus or deficit.

### 1.11 Provisions and contingencies

Provision is a liability of uncertain timing or amount.

The provision for landfill site is recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Policies**

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#### **1.11 Provisions and contingencies (continued)**

Where the effect of time value of money is material, the amount of a provision is the present value of the future expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of the provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If the Municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed in a note to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed in a note to the financial statements where an inflow of economic benefits or service potential is probable. Contingencies are disclosed in the relevant note to the financial statements.

#### **1.12 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

##### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and Value Added Tax (VAT).

##### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Accounting Policies

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#### 1.12 Revenue from exchange transactions (continued)

##### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Stage of completion is determined by:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion that the costs incurred to date bear to the total estimated costs of the transaction.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

##### Interest

Revenue arising from the use by others of the Municipality assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

#### 1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.13 Revenue from non-exchange transactions (continued)**

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### **Property rates**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

# **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **Accounting Policies**

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### **1.13 Revenue from non-exchange transactions (continued)**

#### **Transfers and grants**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Income foregone**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### **Indigent subsidy**

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### **1.14 Comparative figures and prior period errors**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

The Municipality corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets,

liabilities and net assets for the earliest prior period presented.

### **1.15 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of the total amount appropriated in the Municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with MFMA.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Commitments

Where the Municipality has committed itself to future transactions where there is the probability of the outflow of resources, it is regarded as capital commitments.

The identified capital commitments are only disclosed in the notes to the financial statements and are not regarded as liabilities.

The commitments are disclosed when the specific expenditure is approved and the tender has already been awarded to certain contractors at reporting date. If the contract has been awarded at reporting date, but the goods or services have not been delivered/rendered, the Municipality also discloses the contract as a capital commitment.

### 1.19 Budget information

The budget has been included in the financial statements in accordance with GRAP 24.

The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The financial statements and the budget are both prepared on the accrual basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

The comparison between the last budget approved by the Municipal Council and the final budget is included as an appendix to the financial statements. Explanations of the significant variances between the last approved budget and final budget are included in the related appendix.

Furthermore explanations of the significant variances between the budget and actual amounts are also included as an appendix to the financial statements.

### 1.20 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Subject to the exception discussed below, if the Municipality has had related party transactions during the periods covered by the financial statements, it discloses the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosures will be in addition to the disclosure of remuneration of management.

The Municipality does not disclose related party transactions where such transactions occur within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Municipality to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the Municipality's legal mandate.

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Accounting Policies**

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#### **1.20 Related parties (continued)**

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include key management personnel and close members of the family of key management personnel and councillors.

Key management personnel include all directors or members of the Municipal Council where the Council has jurisdiction. The Council, together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of Municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the Municipality. Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the Municipality.

#### **1.21 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The amounts recognised in the financial statements are adjusted to reflect any adjusting events after the reporting date.

The amounts recognised in the financial statements are not adjusted for non-adjusting events after the reporting date.

Disclosure of a material non-adjusting event is made in a note to the financial statements.

#### **1.22 Going concern**

The annual financial statements have been prepared on the assumptions that the Municipality will continue to operate as a going concern for at least the next twelve months.

#### **1.23 VAT**

The Municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15 (2)(a) of the Value-Added Tax Act No 89 of 1991.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

2017

2016

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management



## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

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#### 2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

#### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>3. Inventories</b>		
Consumable stores	785 297	822 359
Water stock	39 522	32 946
	<b>824 819</b>	<b>855 305</b>

There were no inventory write downs during the year. No inventories are pledged as security for any liabilities.

### 4. Investments

#### At amortised cost

First National Bank Limited	-	370 831
SWK Shares Maquassi	6 943	6 612
SWK Shares Wolmaransstad	9 366	8 920
SWK Shares Leeudoringstad	11 405	10 862
ABSA Bank Limited	360 000	360 000
	<b>387 714</b>	<b>757 225</b>

#### Current assets

At amortised cost	387 714	757 225
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No investments are pledged as security / collateral.

### 5. Receivables from non-exchange transactions

Fines	16 634 348	15 712 340
Prepayment	3 257 498	-
Other consumer debtors	1 158 153	6 368 615
Other receivables	1 688 424	2 627 436
Property rates	4 024 350	8 257 999
	<b>26 762 773</b>	<b>32 966 390</b>

#### As at 30 June 2017

	Gross Balance	Impairment	Net Balance
Fines	59 458 068	(42 823 720)	16 634 348
Prepayments	3 257 498	-	3 257 498
Other consumer debtors	207 769 746	(206 611 593)	1 158 153
Other receivables	1 839 323	-	1 839 323
Property rates	65 360 859	(61 336 509)	4 024 350
	<b>337 685 494</b>	<b>(310 771 822)</b>	<b>26 913 672</b>

#### As at 30 June 2016

	Gross Balance	Impairment	Net Balance
Fines	52 388 513	(36 676 173)	15 712 340
Other consumer debtors	156 273 111	(149 904 496)	6 368 615
Other receivables	2 627 436	-	2 627 436
Property rates	53 840 736	(45 582 737)	8 257 999
	<b>265 129 796</b>	<b>(232 163 406)</b>	<b>32 966 390</b>

#### Ageing as at 30 June 2017

	Property rates	Other consumer debtors
Current (0-30 days)	2 453 429	5 001 109
31 - 60 days	1 647 092	4 908 136
61 - 90 days	1 457 746	4 738 595
91+ days	59 802 592	193 121 906

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>Total</b>	<b>65 360 859</b>	<b>207 769 746</b>
<b>Ageing as at 30 June 2016</b>	<b>Property rates</b>	<b>Other consumer debtors</b>
Current (0-30 days)	2 102 327	4 124 011
31 - 60 days	1 308 105	4 052 028
61 - 90 days	1 217 557	3 806 813
91+ days	49 212 747	144 290 259
<b>Total</b>	<b>53 840 736</b>	<b>156 273 111</b>
<b>Reconciliation of allowance for impairment</b>		
Beginning of the year	231 374 288	184 203 882
VAT provision	62 566	21 543
Contribution to provision	79 334 968	47 937 981
<b>Balance at the end of year</b>	<b>310 771 822</b>	<b>232 163 406</b>
<b>6. VAT receivable</b>		
VAT	26 433 098	24 444 343
<b>7. Trade and other receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	22 410 196	15 941 141
Water	320 523 626	257 270 241
Sewerage	174 905 827	150 677 269
Refuse	90 974 549	77 871 933
	<b>608 814 198</b>	<b>501 760 584</b>
<b>Less: Allowance for impairment</b>		
Electricity	(15 715 459)	(10 097 613)
Water	(318 003 214)	(247 944 066)
Sewerage	(165 276 099)	(144 342 409)
Refuse	(90 179 766)	(75 489 783)
	<b>(589 174 538)</b>	<b>(477 873 871)</b>
<b>Net balance</b>		
Electricity	6 694 737	5 843 528
Water	2 520 412	9 326 175
Sewerage	9 629 728	6 334 860
Refuse	794 783	2 382 150
	<b>19 639 660</b>	<b>23 886 713</b>
<b>Gross balance of receivables from exchange transactions</b>		
Current (0-30 days)	17 289 853	15 135 083
31 - 60 days	13 255 651	9 052 380
61 - 90 days	10 415 472	8 851 756
91 + days	567 853 222	468 721 365
	<b>608 814 198</b>	<b>501 760 584</b>

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>7. Trade and other receivables from exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(477 572 286)	(407 846 445)
Contributions to allowance	(111 602 252)	(61 449 922)
Debt impairment written off against allowance	-	(8 577 504)
<b>Balance at the end of year</b>	<b>(589 174 538)</b>	<b>(477 873 871)</b>

## 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	158	3 010
Bank balances	5 129 702	7 581 069
Bank overdraft	(4 333 879)	(3 638 646)
	<b>795 981</b>	<b>3 945 433</b>
Current assets	5 129 860	7 584 079
Current liabilities	(4 333 879)	(3 638 646)
	<b>795 981</b>	<b>3 945 433</b>

## The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
ABSA Bank - Current Account 4055605473	2 903 765	361 028	(4 333 879)	(3 638 646)
ABSA Bank - Current Account 4061545689	927 292	848 209	927 292	848 209
ABSA Bank - Current Account 4050989969	831 905	2 260 757	831 905	2 260 757
ABSA Bank - Current Account 4064023765	1 826 890	3 661 289	1 826 890	3 661 289
ABSA Bank - Current Account 4064584280	3 574	4 578	3 574	4 578
ABSA Bank - Current Account 4055636965	23 635	24 044	23 635	24 044
ABSA Bank - Current Account 4049678703	20 078	96 288	20 078	96 288
ABSA Bank - Current Account 4055686261	998 706	221 343	998 706	221 343
ABSA Bank - Current Account 4052543232	5 583	6 615	5 583	6 615
ABSA Bank - Current Account 4064692380	21 399	21 303	21 399	21 303
ABSA Bank - Current Account 9126643503	395 845	367 251	395 845	367 251
ABSA Bank - Current Account 9138622959	74 795	64 922	74 795	64 922
<b>Total</b>	<b>8 033 467</b>	<b>7 937 627</b>	<b>795 983</b>	<b>3 937 953</b>

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
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### 9. Investment property

	2017			2016		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	66 492 000	-	66 492 000	66 492 000	-	66 492 000

#### Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	66 492 000	66 492 000

#### Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	66 492 000	66 492 000

No assets are pledged as security.

The significant portion of the Municipality's investment property is vacant land.

Investment properties were valued by an independent professional valuer during the 2015/16 financial year. The municipality performs valuation every four years. No indication was identified during the current year that any change in the fair value of these investment properties occurred.

### 10. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	228 669 149	(85 404 438)	143 264 711	228 669 149	(80 181 182)	148 487 967
Infrastructure	1 383 548 023	(639 600 094)	743 947 929	1 345 713 101	(609 443 298)	736 269 803
Community	61 961 204	(42 789 143)	19 172 061	61 961 204	(40 251 522)	21 709 682
Work in progress	30 450 041	-	30 450 041	11 256 591	-	11 256 591
Other assets	17 760 413	(14 120 733)	3 639 680	18 401 031	(13 939 525)	4 461 506
<b>Total</b>	<b>1 722 388 830</b>	<b>(781 914 408)</b>	<b>940 474 422</b>	<b>1 666 001 076</b>	<b>(743 815 527)</b>	<b>922 185 549</b>

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

Figures in Rand

#### 10. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Derecognition	Depreciation	Impairment loss	Total
Land and buildings	148 487 967	-	-	-	-	(4 340 750)	(882 506)	143 264 711
Infrastructure	736 269 803	-	-	41 991 987	(1 995 939)	(32 317 922)	-	743 947 929
Community	21 709 682	-	-	-	-	(2 537 621)	-	19 172 061
Work in progress	11 256 591	61 185 437	-	(41 991 987)	-	-	-	30 450 041
Other assets	4 461 506	1 621 716	(89 575)	(48 930)	-	(2 305 037)	-	3 639 680
	<b>922 185 549</b>	<b>62 807 153</b>	<b>(89 575)</b>	<b>(48 930)</b>	<b>(1 995 939)</b>	<b>(41 501 330)</b>	<b>(882 506)</b>	<b>940 474 422</b>

##### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Prior year correction	Depreciation	Total
Land and buildings	152 869 813	-	-	-	-	(4 381 846)	148 487 967
Infrastructure	685 443 635	34 908 386	-	47 820 672	(280 816)	(31 622 074)	736 269 803
Community	24 262 905	146 466	(25 072)	-	63 104	(2 737 721)	21 709 682
Work in progress	16 723 288	42 634 844	(280 869)	(47 820 672)	-	-	11 256 591
Other assets	6 885 589	541 071	-	-	-	(2 965 154)	4 461 506
	<b>886 185 230</b>	<b>78 230 767</b>	<b>(305 941)</b>	<b>-</b>	<b>(217 712)</b>	<b>(41 706 795)</b>	<b>922 185 549</b>

No assets are pledged as security and there are no restrictions on the title for property, plant and equipment.

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
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#### 10. Property, plant and equipment (continued)

##### Depreciation rates

During the year the municipality have performed condition assessments of assets that reach a zero remaining useful life. The effect of the change in remaining life of assets is lower depreciation in the current year of R670,734. Subsequently future depreciation will increase with the value of R 670,734 spread over an average of 23 years. Details of the effect of change in estimate is recorded below:

Item	Depreciation method	Average useful life
Infrastructure - Road networks	Straight line	17
Infrastructure - Sanitation networks	Straight line	45
Infrastructure - Stormwater networks	Straight line	21
Land and buildings - Community facilities	Straight line	21
Land and buildings - Operational facilities	Straight line	16
Land and buildings - Sporting and recreational facilities	Straight line	19

##### Impairment loss

The municipality assesses assets when indicators of impairment has been identified. During the year, the following indicators of impairment were identified:

##### Infrastructure (roads and servitudes)

New roads were completed in the current year. The older roads replaced by the new roads indicated an impairment loss. The roads were assessed for the value of impairment which resulted in an impairment loss of R 1 995 138.

##### Land and buildings

During the year, a fire resulted in the damage to a building. The building was assessed for any impairment and resulted in an impairment loss to the value of R 882 506.

#### 11. Borrowings

##### At amortised cost

Annuity loan DBSA 61007163	468 845	544 683
Annuity loan DBSA 61007165	45 435 757	44 150 451
Annuity loan DBSA 10263/102	-	118 208
Dr Kenneth Kaunda District Municipality	744 848	744 849
<b>Total borrowings</b>	<b>46 649 450</b>	<b>45 558 191</b>

##### Non-current liabilities

At amortised cost	41 020 225	41 544 405
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##### Current liabilities

At amortised cost	5 629 225	4 013 786
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The Municipality received three loans from the Development Bank of Southern Africa (DBSA) to fund infrastructure expenditure and one has been settled by Dr Kenneth Kaunda District Municipality.

The terms are as follows:

	Interest rate	Redemption date
DBSA 61007163	7.5%	30.06.2017
DBSA 61007165	5%	30.06.2033
DBSA 10236/102	10%	30.09.2016
Dr Kenneth Kaunda District Municipality	10%	30.09.2016

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
<b>12. Payables from exchange transactions</b>		
Accruals	154 100 045	85 129 926
Accrued bonus	1 041 306	1 197 991
Accrued leave pay	6 986 174	7 614 668
Consumer debt	227 495	225 602
Department of Human Settlement	764 600	764 600
Deposits	593 031	2 947 051
Department of Transport	346 451	-
Other creditors	(132 448)	255 610
Payments received in advance	3 737 032	3 613 578
Performance bonus accrual	352 860	316 088
Retention	7 642 281	5 665 668
Trade creditors	-	39 457 039
	<b>175 658 827</b>	<b>147 187 821</b>

Trade payables are normally settled within 30 days.

The leave pay accrual is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee. The leave pay accrual represents the number of leave days due to individual staff members at year end. The amount of the accrual is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Payments received in advance represents advance payments made by customers.

### 13. Consumer deposits

Water and Electricity	2 260 511	2 227 106
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The amount reflected represent a cost value. No interest accrues in favour of the consumer upon termination of the service delivery with the Municipality.

### 14. Employee benefit obligation

#### Defined benefit plan

##### Post-retirement health care benefits

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependents may continue membership of the medical scheme.

Eligible employees are entitled to receive a post-employment subsidy, which will be at a rate of 60% of the contribution payable should they be a member of a medical scheme at retirement. All continuation members and their eligible dependants receive a 60% subsidy.

The projected unit credit method has been used to value the liability. The valuation was performed by One Pangea as at 30 June 2017.

There are no assets backing the post-retirement health care liability.



# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>14. Employee benefit obligation (continued)</b>		
<b>Long service awards</b>		
The Municipality offers employees long service award for every five years of service completed, from ten years of service to 40 years of service, inclusive. The recognition of service is calculated from the later of the date of appointment and 1 July 1986.		
The projected unit credit method has been used to value the liability. The valuation was performed by One Pangea as at 30 June 2017.		
There are no assets backing the long service award liability.		
The amounts recognised in the statement of financial position are as follows:		
<b>Carrying value</b>		
Opening balance	28 515 000	23 601 314
Current service cost	1 940 000	1 903 000
Past service cost	(932 000)	(703 314)
Interest cost	2 758 000	1 480 000
Actuarial (gain) / losses	(4 409 000)	2 234 000
<b>Closing balance</b>	<b>27 872 000</b>	<b>28 515 000</b>
Non-current liabilities	(26 980 000)	(27 619 000)
Current liabilities	(892 000)	(896 000)
	<b>(27 872 000)</b>	<b>(28 515 000)</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	1 940 000	1 903 000
Past service cost	(932 000)	(703 314)
Interest cost	2 758 000	2 234 000
Actuarial (gains) losses	(4 409 000)	1 480 000
	<b>(643 000)</b>	<b>4 913 686</b>
<b>14.1 Post retirement health care benefits</b>		
Opening balance	24 940 000	20 573 355
Current services costs	1 349 000	1 312 000
Benefits paid	(537 000)	(504 355)
Actuarial loss/(gain)	(3 927 000)	1 591 000
Interest cost	2 435 000	1 968 000
<b>Closing balance</b>	<b>24 260 000</b>	<b>24 940 000</b>
<b>Net expense recognised in Statement of Financial Performance</b>		
Current services costs	1 349 000	1 312 000
Benefits paid	(537 000)	(504 355)
Actuarial loss/(gain)	(3 927 000)	1 591 000
Interest cost	2 435 000	1 968 000
	<b>(680 000)</b>	<b>4 366 645</b>

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>14. Employee benefit obligation (continued)</b>		
<b>14.2 Long service award</b>		
Opening balance	3 575 000	3 027 959
Current service costs	591 000	591 000
Benefits paid	(395 000)	(198 959)
Actuarial gains (losses)	(482 000)	(111 000)
Interest cost	323 000	266 000
<b>Closing balance</b>	<b>3 612 000</b>	<b>3 575 000</b>
<b>Net expense recognised in Statement of Financial Performance</b>		
Current services costs	591 000	591 000
Benefits paid	(395 000)	(198 959)
Actuarial (gain)/loss	(482 000)	(111 000)
Interest cost	323 000	266 000
	<b>37 000</b>	<b>547 041</b>

### Key assumptions used - Post-retirement Health Care Benefits

Assumptions used at the reporting date:

Discount rates used	10.9 %	9.6 %
Expected rate of return on assets	8.5 %	8.6 %
Expected rate of return on reimbursement rights	7.0 %	7.1 %

### Sensitivity Analysis - Post-retirement Health Care Benefits

Below is the summary of the results of sensitivity analysis:

A percentage point change in the assumed discount rate and health care inflation would have the following effect:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	(3 513 000)	(3 820 000)
Effect on defined benefit obligation	3 850 000	4 888 000

### Key assumptions used - Long Service Awards

	2017 R	2016 R
Plan assets	8.80%	8.80%
Surplus (deficit)	7.40%	7.40%
Experience adjustments on plan liabilities	6.40%	6.40%
Normal retirement age	63	63
Number of eligible in-service members	250	250

### Sensitivity Analysis - Long Service Awards

Below is the summary of the results of sensitivity analysis:

A percentage point change in the assumed discount rate and salary inflation rate would have the following effects:

	1% increase	1% decrease
Effect of discount rate changes on the obligation	(274 000)	(234 000)
Effect of salary inflation changes on the obligation	310 000	272 000

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
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### 14. Employee benefit obligation (continued)

Basis for the discount rate used

The discount rate used for post-retirement healthcare benefits and long service award obligation as at 30 June 2017 has been derived from the government bond yield curve published by the Bond Exchange of South Africa at the same date.

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	12 291 846	10 398 092
Provincial Government Library Grant	41 458	177 963
Finance Management Grant	477 243	11 070
Dr Kenneth Kaunda District Municipality	20 316	20 316
EPWP Roads	-	74 895
	<b>12 830 863</b>	<b>10 682 336</b>

#### Movement during the year

Balance at the beginning of the year	10 682 336	2 571 763
Additions during the year	178 840 000	61 972 000
Income recognition during the year	(170 238 473)	(52 260 427)
Amounts returned to National Treasury during the year	(6 453 000)	(1 601 000)
	<b>12 830 863</b>	<b>10 682 336</b>

See Note 23 for reconciliation of grants from National/Provincial Government.

### 16. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	17 896 295	3 686 882	21 583 177

#### Reconciliation of provisions - 2016

	Opening Balance	Reversed during the year	Total
Environmental rehabilitation	41 219 007	(23 322 712)	17 896 295
Non-current liabilities		7 647 234	-
Current liabilities		13 935 943	17 896 295
		<b>21 583 177</b>	<b>17 896 295</b>

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
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#### 16. Provisions (continued)

The provision for the rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. A report was compiled for all landfill sites after being inspected by One Pangea. This report has been compiled in order to assure that the Municipality complies with the minimum requirements as set out in the Department of Water Affairs Minimum requirements for Waste Disposal by Landfill, 1998 and the current National norms and standards for Waste Disposal as published in Government Gazette Notices 634, 635 and 636 of 2013 as well as the National Environment Management Waste Act (Act 59 of 2008).

It is estimated that the landfill site will be rehabilitated in 11 years' time for the Wolmaransstad landfill site. The municipality has decided to close the Witpoort, Leeudoring and Maquassi landfill sites. The estimated future expenditure to rehabilitate the landfill was discounted at annual rate of 9.32% (which is based on the yield curve of the bond exchange of South Africa).

#### 17. Revenue

Licences and permits	1 945 731	1 885 803
Service charges	164 333 165	137 128 885
Rental of facilities and equipment	722 353	610 809
Other income	2 558 634	60 719 870
Interest revenue	55 404 821	42 876 639
Property rates	35 084 639	31 760 081
Other taxation revenue 1	1 320	-
Government grants	170 238 474	144 138 426
Fines	11 577 729	18 528 270
	<b>441 866 866</b>	<b>437 648 783</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Licence and permits	1 945 731	1 885 803
Service charges	164 333 165	137 128 885
Rental of facilities and equipment	722 353	610 809
Other income	2 558 634	60 719 870
Interest revenue	55 404 821	42 876 639
	<b>224 964 704</b>	<b>243 222 006</b>

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	35 084 639	31 760 081
Other taxation revenue 1	1 320	-
<b>Transfer revenue</b>		
Government grants	170 238 474	144 138 426
Fines	11 577 729	18 528 270
	<b>216 902 162</b>	<b>194 426 777</b>

#### 18. Service charges

Sale of electricity	53 337 114	48 216 436
Sale of water	64 863 876	45 786 789
Sewerage and sanitation charges	31 412 953	29 118 482
Refuse removal	14 719 222	14 007 178
	<b>164 333 165</b>	<b>137 128 885</b>

#### 19. Rental of facilities and equipment

Premises

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>19. Rental of facilities and equipment (continued)</b>		
Rental of facilities	722 353	610 809
<b>20. Other income</b>		
Advertising	29 759	55 959
Blocked sewerage fees	798	1 506
Building plans fees and copies	75 932	120 899
Cellphone/ telephone refund	-	4 758
Cemetery fees	134 553	132 332
Clearance certificates	14 773	15 055
Connection fees : electricity	2 957	4 325
Connection fees : sewerage	-	1 160
Connection fees : water	950	2 071
Contribution to leave and bonus	-	136 529
Deeds search	142	648
Dividends	1 458	1 683
Donations received	1 000 000	35 054 852
Encroachment	1 028	1 415
Fines: Library	275	-
Garden refuse removal	-	1 734
Insurance recoveries	192 944	225 513
Lost books library	31	-
Meter testing	206	966
Photostat fees	4 382	7 773
Poster fees	75 237	101 329
Reconnections : electricity	52 656	52 675
Reconnections: water	7 625	8 589
Reversal of landfill site provision	-	23 322 711
SETA	184 800	362 222
Sale of inventory	410 182	479 905
Sales : refuse bins	-	359
Sales: Town maps	58	-
Stock surplus	2 101	13 911
Sub division of erven	-	4 105
Sundries	-	317 157
Supply of information	191 429	148 069
Surplus : cash	-	34
Transfer of erven	173 190	135 005
User fees	250	4 517
Valuation certificates	918	104
	<b>2 558 634</b>	<b>60 719 870</b>
<b>21. Interest revenue</b>		
<b>Interest revenue</b>		
Bank	915 117	896 744
Interest charged on trade and other receivables	54 489 704	41 979 895
	<b>55 404 821</b>	<b>42 876 639</b>
Interest is levied on rates outstanding after 30 days at prime interest rate plus 1%.		
<b>22. Property rates</b>		
<b>Rates received</b>		
All categories	35 084 639	31 760 081

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
<b>22. Property rates (continued)</b>		
<b>Valuations</b>		
Residential	1 240 392 280	1 070 837 861
Commercial	240 226 295	251 250 700
State	89 907 810	94 818 190
Agriculture	2 313 464 109	1 336 419 732
Other	5 889 200	6 646 200
	<b>3 889 879 694</b>	<b>2 759 972 683</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied on a monthly basis.

#### Income foregone

In terms of the Municipal Property Rates Act, Act 6 of 2004 rebates and exemptions from property rates are given. The following is applicable for the year under review:

Rebates and exemptions from property rates are only given on Residential and Agricultural zones.

Residential	(5 769 499)	(3 413 853)
Agriculture	(400)	(58 349)
Government	(229 880)	-
	<b>(5 999 779)</b>	<b>(3 472 202)</b>

#### 23. Government grants and subsidies

##### Operating grants

Equitable Share	94 022 000	91 878 000
Dr Kenneth Kaunda District Municipality	-	292 018
Finance Management Grant	1 343 827	1 675 000
Municipal Systems Improvement Grant	-	930 000
EPWP	1 157 895	1 000 000
Library Grant	1 136 506	1 394 501
	<b>97 660 228</b>	<b>97 169 519</b>

##### Capital grants

Municipal Infrastructure Grant	69 578 246	46 968 907
Energy Efficiency and Demand Side Management grant	3 000 000	-
	<b>72 578 246</b>	<b>46 968 907</b>
	<b>170 238 474</b>	<b>144 138 426</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

An amount of R6 453 000 was withheld during the year by National Treasury which was the repayment of the Municipal Infrastructure Grant.

All registered indigents receive a monthly subsidy which is funded from the grant.

Indigent subsidy	1 594 638	3 878 237
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## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
<b>23. Government grants and subsidies (continued)</b>		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	10 398 092	-
Current-year receipts	77 925 000	57 367 000
Conditions met - transferred to revenue	(69 578 245)	(46 968 908)
Amount returned to National Treasury during the year	(6 453 000)	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>12 291 847</b>	<b>10 398 092</b>

The Municipal Infrastructure Grant complements the equitable share grant for local government, however, it is provided conditionally to municipalities. One of the key objects of the grant is to fully subsidise the capital costs of providing basic services to poor households. This implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in key services.

The grant was used by the Municipality to build and develop its infrastructure. The unused funds are committed and remain a liability at financial year end (see Note 15).

#### Provincial Government Library Grant

Balance unspent at beginning of year	177 963	572 465
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 136 506)	(1 394 502)
<b>Conditions still to be met - transferred to liabilities</b>	<b>41 457</b>	<b>177 963</b>

The purpose of the grant is to maintain and operate the local library for the benefit of the community. The unused funds are committed and remain a liability at financial year end (see Note 15).

#### Finance Management Grant

Balance unspent at beginning of year	11 070	412 070
Current-year receipts	1 810 000	1 675 000
Conditions met - transferred to revenue	(1 343 827)	(1 675 000)
Amount returned to National Treasury during the year	-	(401 000)
<b>Conditions still to be met - transferred to liabilities</b>	<b>477 243</b>	<b>11 070</b>

The main purpose of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills. The grant was utilised by the Municipality for its intended purposes.

#### Dr Kenneth Kaunda District Municipality

Balance unspent at beginning of year	20 316	312 333
Conditions met - transferred to revenue	-	(292 017)
<b>Conditions still to be met - transferred to liabilities</b>	<b>20 316</b>	<b>20 316</b>

The unused funds are committed and remain a liability at financial year end (see Note 15).

This grant is received from Dr Kenneth Kaunda District Municipality as part of Inter-Governmental Relations. The grant is based on a business plan submission by the Municipality to the District Municipality. The District Municipality remains the implementing agent and the Municipality is the beneficiary.

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
<b>23. Government grants and subsidies (continued)</b>		
<b>EPWP Roads</b>		
Balance unspent at beginning of year	74 894	1 274 894
Current-year receipts	1 083 000	1 000 000
Conditions met - transferred to revenue	(1 157 894)	(1 000 000)
Amount returned to National Treasury during the year	-	(1 200 000)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>74 894</b>

The grant is received from the National Department of Public Works for creating job opportunities for unemployed persons and so allowing them economic participation and resulting in poverty alleviation.

#### Municipal Systems Improvement Grant

Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(930 000)
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

The grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist municipalities in developing their planning, budgeting financial management and technical skills. The grant was utilised by the Municipality for its intended purposes. There were no unused funds at the end of the financial year.

#### Energy Efficiency and Demand Side Management Grant

Current-year receipts	3 000 000	-
Conditions met - transferred to revenue	(3 000 000)	-
<b>Conditions still to be met - transferred to liabilities</b>	<b>-</b>	<b>-</b>

The purpose of this grant is to support municipalities in implementing traffic lights, street lights, high mast lights and building lights as well as energy efficiency in water and sewage infrastructure.

### 24. Employee related costs

Employee related costs - Salaries and Wages	42 346 286	40 802 681
Employee related costs - Contributions for UIF, pensions and medical aids	11 804 268	12 016 768
Travel, motor car, accommodation, subsistence and other allowances	4 698 187	5 546 579
Housing benefits and allowances	879 154	878 120
Performance and other bonuses	2 199 859	2 867 163
Overtime payments	3 663 831	3 210 670
Employee benefit costs	(3 022 173)	188 405
Other employee related costs	34 043	256 037
	<b>62 603 455</b>	<b>65 766 423</b>

#### Remuneration of Municipal Manager

Annual Remuneration	1 123 780	865 263
Car Allowance	210 118	485 834
Contributions to UIF, Medical and Pension Funds	223 943	254 106
	<b>1 557 841</b>	<b>1 605 203</b>

The Municipal Manager's term ended on the 30th of May, above includes his remuneration for 11 months.



# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>24. Employee related costs (continued)</b>		
<b>Remuneration of Chief Finance Officer (MJ Molefe)</b>		
Annual Remuneration	40 516	-
Car Allowance	16 655	-
	<b>57 171</b>	<b>-</b>

The Chief Financial Officer post was vacant since January 2017 to date. Mr Molefe acted from July to August 2016.

### Remuneration of Chief Finance Officer (TE Moeketsane)

Annual Remuneration	90 855	-
Car Allowance	5 402	-
Contributions to UIF, Medical and Pension Funds	297	-
	<b>96 554</b>	<b>-</b>

The Chief Financial Officer post was vacant since January 2017 to date. Mrs Moeketsane acted from November to December 2016.

### Remuneration of executive directors

#### Remuneration of Individual Executive Directors 2017

	Technical Services	Corporate Services	Community Services
Annual Remuneration	1 454 350	633 053	649 439
Travel, motor car, accommodation, subsidies and other allowances	22 991	567 033	107 324
Contributions to UIF, Medical and Pension Funds	1 785	1 785	245 277
	<b>1 479 126</b>	<b>1 201 871</b>	<b>1 002 040</b>

The Director Technical Services position has been vacant since September 2015 and Mr Mwase has been acting since September to date. The acting allowance is included above. The Director Community services position has been vacant since March 2012 and Mr J Leseisane has been acting since March 2016 to date. The acting allowance is included above.

#### Remuneration of Individual Executive Directors 2016

Annual Remuneration	553 847	632 151	320 504
Travel, motor car, accommodation, subsidies and other allowances	60 000	503 670	-
Contributions to UIF, Medical and Pension Funds	3 831	12 017	-
	<b>617 678</b>	<b>1 147 838</b>	<b>320 504</b>

### 25. Remuneration of councillors

Major	451 044	422 179
Speaker	370 342	364 514
Executive Committee Members	1 151 351	1 124 372
Councillors	2 747 708	2 414 019
Councillors' pension and medical aid contributions	550 345	719 152
Councillors' allowances	2 251 198	2 119 640
	<b>7 521 988</b>	<b>7 163 876</b>

### 26. Depreciation

Property, plant and equipment	41 501 332	41 708 559
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## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
<b>27. Finance costs</b>		
Trade and other payables	866 729	2 091 939
Discounting of landfill site provision	435 470	-
Borrowings	2 269 796	2 287 554
Interest expense on employee benefit obligation	2 757 657	2 234 000
	<b>6 329 652</b>	<b>6 613 493</b>
<b>28. Debt impairment</b>		
Contributions to debt impairment provision	178 641 499	61 281 134
<b>29. Bulk purchases</b>		
Electricity	47 246 202	34 098 345
Water	53 797 650	47 732 730
	<b>101 043 852</b>	<b>81 831 075</b>
<b>30. Contracted services</b>		
IT Licenses	3 882 085	2 455 349
TMT	910 618	2 692 437
Insurance	1 355 128	1 018 987
	<b>6 147 831</b>	<b>6 166 773</b>
<b>31. General expenses</b>		
Advertising	219 006	150 197
Aid allowance and grants	887 000	1 259 000
Auditors remuneration	2 615 353	2 771 644
Bank charges	565 711	244 056
Cleaning	18 868	65 819
Commission paid	840 241	1 203 124
Community development and training	24 500	13 464
Computer expenses	693 840	-
Consulting and professional fees	14 220 668	13 194 032
Contribution to annual bonus	-	3 506 209
Contribution to landfill site	3 251 412	-
Deed notices	68 753	58 449
Departmental consumption	3 027 721	2 239 005
Dustbins	-	219
Entertainment	304 488	144 749
Fuel and oil	1 825 660	1 811 558
Indigent relief	1 594 638	4 126 918
Internal transfers	733 659	2 124 268
Internet services	58 314	60 101
Legal fees	3 861 179	3 433 716
Library grant - social	-	40 797
License fees	81 086	148 667
MPRA : Phase-in and rebates	4 781 628	4 320 187
Mayoral projects	1 296 670	1 573 300
Membership fees	1 098 998	761 820
Postage	15 361	17 129
Pre-paid meter installation	256 375	-
Printing and stationery	1 287 859	982 002
Public entertainment	84	-
SETA	638 290	192 420

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>31. General expenses (continued)</b>		
Security costs	1 671 734	881 393
Skills development levies	525 618	551 411
Staff welfare	1 038	-
Stock shortage	2 310	5 114
Stocks and material	40 574	41 402
Subscription and publication	34 711	57 399
Sundries	-	328 205
Telephone	2 334 381	1 934 966
Town planning scheme	878 729	207 546
Training	711 805	821 651
Travel and subsistence	1 318 487	1 457 600
Uniforms	62 812	150 180
	<b>51 849 561</b>	<b>50 879 717</b>
<b>32. Auditors' remuneration</b>		
Fees	2 615 353	2 771 644
<b>33. Cash generated from operations</b>		
(Deficit) surplus	(28 510 580)	102 756 045
<b>Adjustments for:</b>		
Depreciation	41 501 332	41 708 559
Loss on disposal of assets	(354 130)	305 940
Impairment deficit	2 878 445	-
Increase/(decrease) in employee benefit obligation	(643 000)	4 913 686
(Decrease)/increase in provisions	3 686 882	(23 322 712)
Donation in kind	-	(35 054 852)
Prior period adjustments	-	(65 336 328)
<b>Changes in working capital:</b>		
Trade and other receivables from exchange transactions	4 247 053	(2 865 110)
Other receivables from non-exchange transactions	6 052 718	(9 897 903)
Inventories	30 486	617 094
Payables from exchange transactions	28 471 008	18 942 602
VAT	(1 988 755)	(5 526 232)
Unspent conditional grants and receipts	2 148 527	8 110 573
Consumer deposits	33 405	102 954
	<b>57 553 391</b>	<b>35 454 316</b>
<b>34. Commitments</b>		
<b>Commitments in respect of capital expenditure</b>		
<b>Approved and contracted for</b>		
• Infrastructure	43 865 720	4 489 310
<b>This expenditures will be financed from</b>		
• MIG	43 865 720	4 489 310
<b>Approved and not contracted for</b>		
Infrastructure	24 777 600	26 167 001

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>34. Commitments (continued)</b>		
<b>Operating leases - Municipality as lessee</b>		
<b>Operating Leases : Office equipment</b>	Minimum lease payments	Straight-lined value of minimum lease payments
<b>30 June 2017</b>		
- within one year	1 124 520	1 119 032
- in second to fifth year inclusive	1 829 868	1 829 868
- later than five years	(1 124 520)	(1 119 032)
	<b>1 829 868</b>	<b>1 829 868</b>
<b>30 June 2016</b>		
Within one year	681 067	675 578
Within two to five years	101 039	101 039
Less : Amount due for settlement within 12 months (current portion)	(681 067)	(675 578)
	<b>101 039</b>	<b>101 039</b>

The average lease term is 3-5 years. Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements. The annual escalation rate varies between 10% to 15%. The Municipality's obligation under operating leases is secured by the lessor's charge over the leased assets.

The Municipality did not default on any of the interest or capital repayment of the operating leases. All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets. There is no restriction imposed on the lease arrangements.

### Operating leases - Municipality as lessor

<b>Operating leases : Land and buildings</b>	Minimum lease payments	Straight-lined value of minimum lease payments
<b>30 June 2017</b>		
Within one year	253 041	400 798
Within two years to five years	212 212	212 212
Less : Amount due for receipt within 12 months (current portion)	(253 041)	(400 798)
	<b>212 213</b>	<b>212 212</b>
<b>30 June 2016</b>		
- within one year	400 798	371 731
- in second to fifth year inclusive	212 522	195 752
- later than five years	(400 798)	(371 731)
	<b>212 522</b>	<b>195 752</b>

The average lease term is 3-15 years and the average effective borrowing rate is 10%. Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements.

The Municipality monitors rental payments and institutes debt control where needed. No terms and conditions of the leases were re-negotiated. All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets.

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

	2017 R	2016 R
<b>35. Contingencies</b>		
<b>Contingent liabilities</b>		
<b>Year under review claims</b>		
Mr Khauoe and another - Unfair labour practice dispute, the matter is pending to CCMA - Amount resulted to R250 000.		
Ms Kgopane - He was dismissed and the matter is pending to CCM - Amount resulted to R300 000.		
Mr Windy Mahlangu - Unfair labour practice dispute, the matter is pending to CCMA - Amount resulted to R300 000.		
Department of Labour - The fine in terms of the provisions of Section 21(B) - The amount resulted to R1 500 000.		
Mr D.Struwig -The claim of relates to the damage to his vehicle by a pothole in Leeudoringstad - Amount resulted to R8 924.		
Mr R Ali - The claim relates to damage to his vehicle by potholes - Amount resulted to R18 043		
Mr Manele - The claim relate to damage to his wall fence - The amount resulted to R63 800		
<b>Previous years claims</b>		
Mr C Wenum - The Municipality's former CFO had his contract terminated and the matter is currently at the Labour Court for review - The amount resulted to R1 356 940. This matter has been settled in court during the 2017 financial year.		
Mr M. Besani - The contract of the Municipality's former Director: Engineering Services was terminated and the matter is currently at the Labour Court for review - The amount resulted to R1 537 744. This matter was settled outside of court during the 2017 financial year.		
Mr D.Struwig -The claim of relates to the damage to his vehicle by a pothole in Leeudoringstad - Amount resulted to R8 924.		
<b>36. Related parties</b>		
<b><u>Section 57 Managers</u></b>		
No remuneration was paid to family members of Section 57 Managers.		
<b><u>Members of Council:</u></b>		
No remuneration was paid to family member of the council.		
All councillors and employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over council in making financial and operating decisions.		
<b><u>District Municipality:</u></b>		
Maquassi Hills Local Municipality is related to Dr Kenneth Kaunda District Municipality. Transactions with the District Municipality and balances owing by Maquassi Hills Local Municipality are disclosed below.		
<b><u>Related party transaction</u></b>		
During 2016 Dr Kenneth Kaunda District Municipality donated palisade fencing to the value of R146 466 to the Municipality during the year under review. This was recognised as revenue in the Statement of Financial Performance and as additions to property, plant and equipment in the Statement of Financial Position.		
<b><u>Related party balance</u></b>		
The amount owed relates to the loan the Municipality has with the District Municipality.		
The terms of this loan are disclosed in note 11.		
An amount is also owed to the District Municipality relating to an unspent condition grant.		
The terms of this unspent conditional grant are disclosed in note 23.		
Loan owing to the related party - Dr Kenneth Kaunda District Municipality		
Total liability	744 849	744 849
Unspent conditional grant owing to Dr Kenneth Kaunda District Municipality.	20 316	20 136
<b>Related party balances</b>		

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>36. Related parties (continued)</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
KA Mogapi	436	302
PT Mokgabi	427	-
NL Tshigilane	3 508	242
MN Ntuli	7 305	19 969
MD Notwane	181 192	-
KS Seakane	67 599	1 259
AO Phutiagae	113 007	-
SO Masibi	25 502	-
NF Maxatshwa	87 953	-
J Pheiffer	2 307	-
TS Malebatsane	169 262	-
MM Moepi	35 417	-
GJ van Zyl	1 783	-
GV Kgabi	-	596
IR Dintwe	119 115	-
KJ Selebalo	55 197	-
BF Maphatsoe	63 897	-
TP Bolao	28 480	-
LS Tatabang	27 554	-
SD Manele	10 275	-
TP Bolao	66 412	-
<b>Related party transactions</b>		
<b>Rates levied</b>		
KA Mogapi	656	623
PT Mokgabi	274	260
NL Tshigilane	-	495
MN Ntuli	322	295
MD Notwane	1 002	639
KS Seakane	981	306
AO Phutiagae	536	392
SO Masibi	3 186	594
NF Maxatshwa	625	-
J Pheiffer	10 996	10 450
TS Malebatsane	516	-
MM Moepi	709	674
GJ van Zyl	692	704
IR Dintwe	1 363	897
KJ Selebalo	166	-
BF Maphatsoe	310	-
TP Bolao	1 162	-
LS Tatabang	413	-
SD Manele	2 141	-
SG Maruping	853	-
KG Mojela	38	-
MS Sejese	322	-
NW Ntiane	269	-
DK Mohadi	26	-
BJ Mhumapelo	27	-
<b>Service charges levied</b>		
KA Mogapi	5 270	3 006
PT Mokgabi	3 186	3 006
NL Tshigilane	12 810	3 006
MN Ntuli	3 567	3 006
MD Notwane	39 194	3 006
KS Seakane	13 568	3 006

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

	2017 R	2016 R
<b>36. Related parties (continued)</b>		
AO Phutiagae	26 607	3 006
SO Masibi	14 555	3 006
NF Maxatshwa	13 824	6 012
J Pheiffer	8 972	15 341
TS Malebatsane	13 825	-
MM Moepi	8 972	3 006
GV Kgabi	41 297	32 427
IR Dintwe	21 998	-2 511
KJ Selebalo	12 444	-
BF Maphatsoe	3 426	-
TP Bolao	4 894	-
LS Tatabang	5 026	-
SD Manele	8 039	-
SG Maruping	6 147	-
KG Mojela	265	-
MD Matete	386	-
MS Sejeso	6 519	-
NW Ntiane	406	-
ME Motaung	265	-
DK Mohapi	265	-
BJ Mahumapelo	285	-

### 37. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2017	2016
Payables from exchange transactions	176 803 951	147 281 607
Short term portion on long term liabilities	5 629 225	4 013 786
Bank overdraft	4 333 879	3 638 646
	<b>186 767 055</b>	<b>154 934 039</b>

#### Credit risk

Credit risk is the risk of financial loss to the Municipality if customers or counterparties to financial instruments fail to meet their contractual obligations.

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management cannot however impose limits which it can impose on the rates charged to its customers as it has a constitutional obligation to render these services to its stakeholders. Credit control measure to ensure the recovery of debts are therefore implemented in line with the Municipalities credit control policies.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, receivables and cash and cash equivalents.

These balances represent the maximum exposure to credit risk:

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 37. Risk management (continued)

	2017	2016
Cash and cash equivalents	5 129 860	7 584 079
Short term investment deposits	387 714	757 225
Trade and other receivables from exchange and non-exchange transactions	46 024 242	56 853 103

#### Market risk

##### Interest rate risk

Deposits and overdue consumer debtors attract interest at a rate that vary with prime. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates does not have a material impact on surplus/deficit.

### 38. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the Municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations for the Municipality and raise and collect revenue for services rendered.

The Municipality's liquidity ratios are shown below. Cash / cost coverage ratio indicates the Municipality's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month. The ratio is adjusted for unspent conditional grants as the cash is not available for normal Municipal day-to-day operational expenditure but rather reserved for grant related expenditure.

The municipality has solicited services of the debt collection and credit control companies to ensure that collection rate of the municipality is brought to an acceptable level in line with Circular 71 of the National Treasury.

Strict measures will be enforced on all debtors who default on their accounts, this will be done in line with Council Policy on Debt Collection and Credit Control as well as measures that will be enforced by service providers as appointed by council to assist in this regard. It is envisaged that this measures will assist in improving the collection rate of the municipality. For long term, the National Treasury will also be approached to assist the municipality with the development of a Financial Recovery Plan to assist the municipality to deal with all other matters relating revenue as well as capacity within the Budget and Treasury Office.

### 39. Events after the reporting date

There are no material events after the reporting date.

### 40. Unauthorised expenditure

Opening balance	408 437 795	368 403 193
Unauthorised expenditure incurred during the current year	34	40 034 602
<b>Total unauthorised expenditure</b>	<b>408 437 829</b>	<b>408 437 795</b>

### 41. Fruitless and wasteful expenditure

Opening balance	3 030 552	4 869 768
Interest and penalties on late payment to suppliers	1 114 108	2 351 520
C Wenum	2 922 987	-
Fruitless and wasteful expenditure condoned during the year	-	(4 190 736)
<b>Fruitless and wasteful expenditure awaiting condonement</b>	<b>7 067 647</b>	<b>3 030 552</b>

The fruitless and wasteful expenditure that is under investigation amount to R7 067 647 (2016: R3 030 552).



# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Irregular expenditure

Opening balance	179 271 496	153 688 179
Bid documents not submitted/ No contracts in place	5 753 841	11 952 126
SCM and Tender processes not followed	11 865 876	13 631 191
<b>Irregular expenditure awaiting ratification and condonement</b>	<b>196 891 213</b>	<b>179 271 496</b>

Irregular expenditure incurred during the 2015/16 financial year was increased by R8 433 446 as a result of additional irregular expenditure identified during the audit process of 2015/16.

### 43. In-kind donations and assistance

In-kind donations and assistance:

2017:

- The company IAN Dickie was appointed by Departments of culture, arts and traditional affairs to Design, Manufacturing, Supply, Delivery and commissioning of two sewerline cleaning jetting machines for Maquassi local municipality.
- The donations received amounted to R1000 000.

### 44. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	777 970	711 040
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#### Skills development levy

Current year subscription / fee	525 618	551 411
Amount paid - current year	(525 618)	(551 411)
	-	-

#### Audit fees

Opening balance	2 491 731	3 716 522
Current year audit fee (excl. VAT)	2 615 353	2 771 644
Amount paid - current year (Excl. VAT)	(4 287 408)	(3 996 435)
	819 676	2 491 731

#### PAYE and UIF

Current year payroll deductions and council contributions	9 574 719	9 139 810
Amount paid - current year	(9 574 719)	(9 139 810)
	-	-

#### Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	18 811 444	14 722 877
Amount paid - current year	(18 811 444)	(14 722 877)
	-	-

#### VAT

VAT receivable	26 433 098	24 444 343
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## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

Figures in Rand

#### 44. Additional disclosure in terms of Municipal Finance Management Act (continued)

The Municipality is on the payment basis for VAT and submit monthly returns.

All VAT returns have been submitted by the due date throughout the year.

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding at 30 June 2017:

30 June 2017	Balance R
K.A Mogapi	436
P.T Mokgabi	427
N.L Tshigilane	3 508
M.N Ntuli	7 305
M.D Notwane	187 619
K.S Seakane	67 599
A.O Phutiagae	113 008
S.O Masibi	24 453
N.F Maxatshwa	87 953
J.P Pfeiffer	2 307
T.S Malebatsane	169 233
M.M Moepi	35 417
G.V Kgabi	1 783
I.R Dintwe	119 115
K.J Selebalo	55 197
R.B.F Maphatsoe	63 897
T.P Bolao	28 480
L.S Tatabang	27 554
S.G Maruping	66 412
S.D Manele	10 350
	<b>1 072 053</b>
30 June 2016	Balance R
G V Kgabi	596
K G Mojela	6 022
M S Sejeso	19 969
K S Seakane	43 142
M D Matete	1 259
A K Mogapi	302
N L Tshingilane	242
N W Ntiane	269
	<b>71 801</b>

##### Deviation from supply chain management regulations

Paragraph 12(1) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of written/verbal quotations, formal written quotations and a competitive bidding process, depending on the specified threshold values.

Paragraph 36 of the above mentioned gazette also provides that the Accounting Officer may dispense with the official procurement process in certain circumstances provided that he/she records the reasons for any deviations, reports them to the next meeting of the Council and include as a note to the financial statements.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12 (1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviations from the normal supply chain management regulation. Deviations for quarters 1 to 3 were reported Council.

The reasons for the deviations were mainly due to emergency cases and sole/single suppliers.

From a total expenditure of R470 731 576 (2016: R335 395 964), deviations were R1 011 613 (2016: R1 404 469) being 0.21% (2016: 0.41%) of the total expenditure.

### 45. Prior period errors

#### Other financial liabilities

It was discovered that the loan balances disclosed as Other Financial Liabilities were overstated by R1 797 676 and Trade and other Payables were overstated by R1 060 147. This was due to incorrect opening balances being carried forward from the 2015 financial year due to the duplication of loan balances that were recorded under Trade and Other payables as well as Other financial liabilities. The correction of this error results in the decrease in Other financial liabilities by R1 797 676, the decrease in Trade and other payables by R1 060 147, and the increase in opening Accumulated surplus by R737 348.

#### Trade and other payables

Creditors statement reconciliations were not prepared and suspense accounts were not cleared during the 2014-15 and 2015-16 financial year. Bulk purchase transactions were incorrectly recorded under suspense accounts. This resulted in the overstatement of Value added tax by R8 578, overstatement of trade and other payables by R4 296 868, overstatement of bulk purchases by R7 542 887, overstatement of contracted services by R950, overstatement of general expenses by R113 362 and overstatement of accumulated surplus by R3 134 961.

#### Property, plant and equipment

The correction of error in the financial statements is due to roads that were included in the fixed asset register that does not exist upon physical verifications process. These infrastructure roads network which were incorrectly included have been removed. Furthermore, during the year the municipality have performed condition assessments of assets that reach a zero remaining useful life. Assets were identified which have been prematurely depreciated to zero and the depreciation on these assets has been corrected to a value of R217 711.

Moveable assets with negative carrying values were corrected by reversing the excess depreciation on these assets. The correction resulting in the increase in Property, plant and equipment and Opening accumulated surplus by R420 085.

Moveable asset additions were incorrectly expensed during the 2015/16 financial year. The correction of this error resulted in the increase in Property, plant and equipment by R500 308, the decrease in general expenses by R518 166, the decrease in contracted services by R9 845 and the increase in depreciation for the year by R27 702.

**Revenue:** Revenue for services charged and assessment rates were not billed to customers for two extensions. The unbilled revenue resulted in revenue foregone. The revenue was adjusted to correct the foregone revenue. As the revenue relates to indigents, the receivables raised were 100% impaired during the prior year.

**Irregular expenditure:** A process of assessing the total irregular expenditure for the 2015-16 financial year was performed to identify and unrecorded irregular expenditure. As a result, additional irregular expenditure identified was disclosed.

Employee related cost: Medical aid overpayments were refunded which resulted in the decrease in employee related cost by R2 915 and the decrease in trade and other payables by R2 915.

The correction of the errors results in adjustments to accounts as follows:

	30 June 2016
Opening Accumulated surplus	
Balances as previously reported	722 903 637
Restatement of borrowings	737 348
Restatements of property plant and equipment	(215 947)
Clearing of suspense accounts	(577 820)

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

Figures in Rand

#### 45. Prior period errors (continued)

Correction of Payables from exchange transactions	(2 557 142)
Correction of assets with negative carrying values	420 085
<b>Closing restated balance</b>	<b>720 710 161</b>

#### Payables from exchange transactions

	<b>30 June 2016</b>
Balance as previously stated	150 421 442
Correction of duplication of other financial liabilities	1 060 327
Clearing of suspense accounts	590 880
Correction of bulk purchases	(4 887 747)
Correction of salary control account	2 917
<b>Restated closing balance</b>	<b>147 187 819</b>

#### Property, plant and equipment

	<b>30 June 2016</b>
Balance previously reported	921 469 808
Removal of assets not identified	(314 613)
Adjustment of useful lives of assets	98 666
Effect of restatement on depreciation for the period 30 June 2016	(1 765)
Clearing of suspense accounts	13 060
Correction of assets with negative carrying values	420 085
Recording of additions incorrectly expensed	528 011
Recording of additional depreciation on new additions	(27 703)
<b>Restated closing balance</b>	<b>922 185 549</b>

#### Other financial liabilities

	<b>30 June 2016</b>
Balance previously reported	47 355 866
Restatement of borrowings to statements provided	(1 797 677)
<b>Restated closing balance</b>	<b>45 558 189</b>

#### Revenue

	<b>30 June 2016</b>
Amount previously reported	436 595 117
Income foregone recognised - Service charges	264 548
Income foregone - Assessment rates	789 118
	<b>437 648 783</b>

#### Receivables from non-exchange transactions

	<b>30 June 2016</b>
Amount previously reported	32 966 390
Receivables on income foregone	789 118
Increase in allowance for bad debts	(789 118)
<b>Closing restated balance</b>	<b>32 966 390</b>

#### Receivables from exchange transactions

	<b>30 June 2016</b>
Amount previously reported	23 886 713
Consumer debtors on income foregone	301 585
Increase in allowance for bad debts	(301 585)
<b>Restated amount</b>	<b>23 886 713</b>

#### Irregular expenditure

	<b>30 June 2016</b>
Amount previously reported	170 838 050
Irregular expenditure on SCM non-compliance	8 433 446

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

Figures in Rand

#### 45. Prior period errors (continued)

Restated amount	179 271 496
<b>Contracted services</b>	<b>30 June 2016</b>
Amount previously reported	6 167 723
Correction of Payables from exchange transactions	(950)
	<b>6 166 773</b>
<b>VAT receivable</b>	<b>30 June 2016</b>
Amount previously reported	24 452 921
Decrease in fair value 2014/2015	(8 579)
Restated amount	<b>24 444 342</b>
<b>Depreciation</b>	<b>30 June 2016</b>
Amount previously reported 2015/2016	41 679 091
Clearing of suspense accounts	1 765
Recording of new additions 2015/16	27 703
Restated amount	<b>41 708 559</b>
<b>Bulk purchases</b>	<b>30 June 2016</b>
Amounts previously reported	89 373 963
Correction of bulk purchases	(7 542 888)
Restated amount	<b>81 831 075</b>
<b>General expenditure</b>	<b>30 June 2016</b>
Amount previously disclosed	51 284 523
Correction of Payables from exchange transactions	113 362
Capitalize moveable additions	(518 166)
Restated balance at 30 June 2016	<b>50 879 719</b>
<b>Debt impairment</b>	<b>30 June 2016</b>
Amount previously disclosed	60 227 466
Recording of revenue foregone	1 053 668
	<b>61 281 134</b>
<b>Repairs and maintenance</b>	<b>30 June 2016</b>
Amount previously disclosed	13 466 460
Capitalize moveable additions	(9 845)
	<b>13 456 615</b>
<b>Employee related costs</b>	<b>30 June 2016</b>
Amount previously disclosed	65 769 338
Correction of medical aid	(2 915)
	<b>65 766 423</b>

#### 46. Distribution losses

##### Electricity losses

Electricity units (kWh) purchased from Eskom	50 251 071	49 247 500
Electricity units (kWh) sold to consumers	(42 106 710)	(44 512 410)
	<b>8 144 361</b>	<b>4 735 090</b>

## Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

Figures in Rand

#### 46. Distribution losses (continued)

Electricity losses for the financial year is 16.21% (2016: 9.61%). The Rand value of the electricity losses for the current financial year is R8 144 361 (2016 : R4 735 090).

The losses are attributable to electricity line losses within the electricity network infrastructure.

##### Water losses

Water (KL) purchased	5 188 616	5 395 906
Water (KL) sold to consumers	(3 295 123)	(2 379 281)
	<b>1 893 493</b>	<b>3 016 625</b>

Water losses for the financial year is 36.49% (2016: 55.91%). The Rand value of water losses for the current year is R1 862 521 (2016: R3 016 625).

The selling price rate per kilolitre for the current year is R18.24 (2016: R13.33).

#### 47. Budget differences

##### Material differences between budget and actual amounts

The variances are due:

**Licenses and permits:** Actual revenue excluded amounts repaid to the Department of Transport as part of the agreement to collect revenue on behalf of the department. The municipality only gets 20% agency fee/commission and 80% is payable to Department of Transport.

**Service charges:** Actual customer's usage exceed budgeted expectations. Additionally new areas were billed in the current year which increased charges raised. The item was under budgeted and adjustments had to be made.

**Interest revenue:** Unpaid receivables grew during the year due to customers being unable to pay their municipal debts. This resulted in an increase in the interest charged on overdue debts. In addition council has also under budgeted for this item, hence adjustments had to be made.

**Government grants:** The total usage of the MIG grant was beyond budgeted expectations due to speedy project implementation and as a result an additional funding of R51M was received.

**Fines:** Actual fines exceed budget due to active implementation of road blocks and measure to curb road abuse. The measures resulted in an increase in fines issued compared budget expectations.

**Personnel costs:** Employee costs reduced as a result on vacancies in the current year.

**Asset impairment:** The impairment loss on PPE are further explained on note 10 of the Annual Financial Statements.

**Debt impairment:** The debt impairment increased as a result of the inability to increase repayments of debts from customers.

**Bulk purchases:** The bulk purchases exceeded budget due to an increase in consumption by customers during the period and also council has under budgeted for bulk purchases.

**Contracted services:** Deviation can be attributed to general cash flow problem the Municipality experienced during the year resulting in less general expenses incurred compared to actual budget.

**General expenses:** Deviation can be attributed to general cash flow problem the Municipality experienced during the year resulting in less general expenses incurred compared to actual budget.

**VAT receivable:** There was no budgeted amount.

**Receivables:** There was no budgeted amount.

# Maquassi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

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### 47. Budget differences (continued)

**Investment property:** There was no budgeted amount.

**Property, plant and equipment:** The budget was estimated based on the additions that are supposed to purchase during the year and movement is considered reasonable.

**Payables from exchange transactions:** The budgeted amount is based on the estimated expenditure.

**Unspent conditional grants:** There was no budgeted amount.

**Employee benefit obligation:** There was no budgeted amount.

**Provisions:** Figures are based on the requirements of the Department of Environmental affairs as provision consist of Employee benefit obligation.

**Personel costs:** Employee costs reduced as a result on vacancies in the current year. Furthermore the actuarial gain of R3million in the employee benefit obligation decreased the overal employee costs for the year.

### Changes from the approved budget to the final budget

The variances are due:

### Statement of Financial Performance

**Service charges:** The municipality billed a lot more than initially budgeted, therefore the budgeted was adjusted upwards.

**Fines and licences and permits:** Fines, licences and permits are generally performing well, with collection standing at 178% and 100% respectively. Revenue projection of these service will have to be projected upwards when an adjustment budget is compiled.

**Rental of facilities and equipment:** The municipality billed a lot more than initially budgeted, therefore the budgeted was adjusted upwards.

**Interest on outstanding debtors:** The municipality anticipated that they would have collected more monies from debtors due to the revenue enhancement strategy, however the exercisce did not yield the expected results and had to charge more interest.

**Interest on investments:** Interest on investment was initially underbudgeted due to pressure to decrease reduce costs and therefore reduce budgeted income.

**Other income:** The estimate was decreased due to the fact that the traffic department is no longer operational and the rate of collection is lower than the expected projections.

**Property rates:** The budgeted Property rates amounted to R14 million, the municipality billed R17, 65 million and managed to collect R10 million or 59% thereof. Therefore the property rates revenue was adjusted upwards based on the actual collection as at December 2016.

**Government grants and subsidies:** The municipality no longer receives DBSA grants. There was also a significant MIG allocation received during the year that was not reflected on the initial allocation.

**Employee related costs and councillors remuneration:** There is an urgent need for the municipality to capacitate the Budget and Treasury Office, to ensure that critical vacant position are filled will officials that have the requisite skills and experience. The main focus will be at the Revenue Section as this will enable the municipality to collect revenue due to it by implementing the debt collection and credit control policy effectively. The vacancies resulted in the decrease in budgeted amounts.

**Depreciation:** The budget was aligned to the financial statements of the previous year.

**Finance costs:** The budget was increased as creditors were not paid on time.

## **Maquassi Hills Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

### **Notes to the Annual Financial Statements**

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#### **47. Budget differences (continued)**

**Bulk purchases:** Over expenditure is as a result of the municipality paying arrear accounts of Eskom and Water Boards in line with the payment agreement that is currently in place.

**Contracted services:** There were savings in changes of some of the contractors.

**General expenses:** The municipality's expenditure exceeded the budgeted amounts and the budget therefore had to be increased.

#### **Statement of Financial Position**

**Property, plant and equipment and Accumulated surplus:** Additional MIG funding resulted in the increase in Property, plant and equipment and therefore Accumulated surplus.

#### **Cash Flow Statement:**

All adjustments to the cash flow statement are attributable to the adjustments highlighted above.